

# Government Programs For Fiscal 1964 and 1965

THE Federal Budget presented to Congress earlier this year reflects varying changes in Federal expenditures from fiscal 1964 to fiscal 1965, depending on what budget concept is used. The Administrative Budget proposes a reduction of  $\$ \frac{1}{2}$  billion in expenditures; the cash budget provides for no change in cash payments to the public, while on a national income and product

from fiscal 1960 to fiscal 1963, Federal expenditures on the national income account basis increased an average of  $\$6 \frac{1}{4}$  billion a year, and the rise in fiscal 1964 is estimated at  $\$6 \frac{1}{2}$  billion. Federal purchases of goods and services—the part of the Federal total that is counted as a component of the GNP—is expected to rise  $\$1 \frac{1}{4}$  billion. This compares with an average annual increase of  $\$3 \frac{3}{4}$  billion for the 1960–63 period and a rise which is estimated to be only slightly smaller for fiscal year 1964.

If the economic projections underlying the Budget document materialize, Federal Government receipts under all three budget concepts will increase by about  $\$5$  billion in fiscal 1965, after allowance for the estimated revenue losses from the tax program proposed in the Budget. The tax reduction proposals involve an initial loss to the Treasury of about  $\$8$  billion before any feedback effect. However, the rise of business and consumer incomes under the economic stimulus of the tax cuts, coupled with the underlying growth in the economy, is expected to generate enough additional revenues to override this loss and to advance total receipts as indicated.

The Budget estimates assume a GNP rise of  $\$38$  billion for calendar 1964, as against a  $\$30$  billion increase in calendar 1963.

Despite the higher levels of economic activity and the shift away from sharply rising expenditures, all three budgets are projected to remain in deficit through fiscal 1965. The deficits in fiscal 1965 will, however, be smaller than in fiscal 1964, and on the national income account basis a movement

toward balance, if not into surplus, is implied some time in calendar 1965. Summary data for the three budgets are shown in table 1.

The decrease in the deficit does not mean that Federal fiscal policy in fiscal 1965 will restrict economic activity. The tapering of expenditures, which is the main factor leading to a reduced deficit, would be offset by higher consumption and investment outlays as a result of the stimulating effect of the cut in tax rates.

**Table 1.—Federal Government Receipts and Expenditures, Fiscal 1963–65**

(Billion dollars)

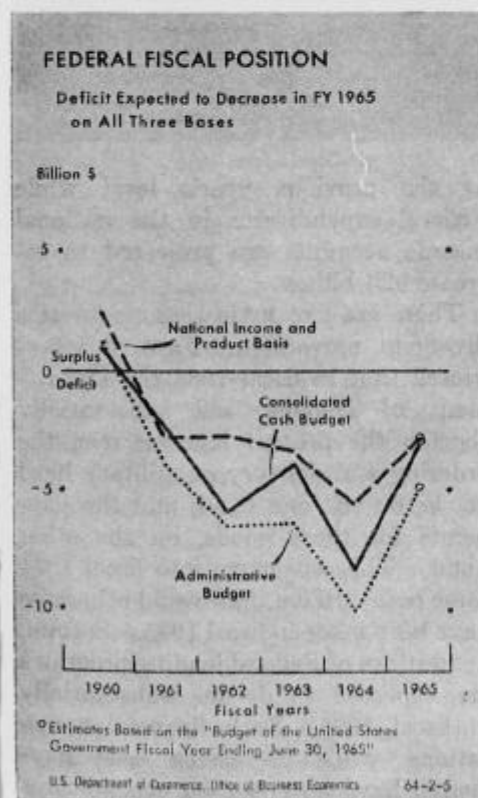
	1963 actual	1964 estimate	1965 estimate
<b>Administrative Budget:</b>			
Receipts.....	86.4	88.4	93.0
Expenditures.....	92.6	98.4	97.9
Surplus (+) or deficit (-)	-6.3	-10.0	-4.9
<b>Cash Budget:</b>			
Receipts.....	109.7	114.4	119.7
Expenditures.....	113.8	122.7	122.7
Surplus (+) or deficit (-)	-4.0	-8.3	-2.9
<b>National income and product account:</b>			
Receipts.....	109.3	113.6	118.8
Expenditures.....	112.6	119.1	121.5
Surplus (+) or deficit (-)	-3.3	-5.5	-2.8

Sources: "The Budget of the United States for Fiscal Year Ending June 30, 1965" and U.S. Department of Commerce, Office of Business Economics.

## Outlook for first half of calendar 1964

Table 2 shows receipts and expenditures in the national income account by major component and by quarters for calendar year 1963.

The estimates of total expenditures for fiscal year 1964 imply increases of approximately  $\$2$  billion, seasonally adjusted annual rate, for the first two



account basis, expenditures are estimated to increase by about  $\$2 \frac{1}{2}$  billion.

However measured, the proposed fiscal year 1964–65 changes in expenditures present a picture that differs from recent experience. For example,

quarters of calendar year 1964. If Federal purchases of goods and services are to reach the \$67.8 billion level projected for fiscal 1964, increases of roughly \$1½ billion a quarter for the first half of calendar 1964 are necessary. It is likely, therefore, that by the end of fiscal 1964, Federal purchases will have reached the level projected for all of fiscal 1965.

The receipts and expenditures totals for fiscal 1964 imply deficits on the order of \$10 billion (seasonally adjusted annual rate) for each of the first two quarters of calendar 1964. The sharp increase from second half 1963 levels is due, of course, to the initial effects of the proposed tax cuts.

#### Coverage and timing in the several budgets

The three measures of Federal Government fiscal activity differ from one another in respect to both coverage and timing. The administrative budget, which serves as the basis of congressional action on administration requests, excludes the activities of the trust funds such as the social security programs, which are included in both the cash budget and national income account receipts and expenditures.

Federal activities as measured in the national income accounts differ from the cash budget in that most taxes are counted as receipts at the time the liability is incurred rather than when the Government actually receives pay-

ment. Similarly, on the expenditure side, an attempt is made to synchronize Federal purchases with other sectors of the national accounts. Consequently, many goods are counted as Federal purchases in the national income accounts at the time of delivery rather than at the time of payment. A further major difference between the cash budget and national income accounts is the exclusion of transactions of a purely financial nature, e.g., loans and purchases of existing assets, from the national income accounts, since they do not reflect current production or add to current income.

Although receipts on an accrual basis would normally increase more rapidly than cash collections in periods of sharply rising incomes, the former are projected to increase slightly less than the latter in both fiscal 1964 and 1965, owing to the projected effects of the new tax program. The scheduled reduction in individual and corporate tax rates will be reflected in lower accruals on national income account as soon as the new rates become effective. By way of contrast, cash collections will not be affected for approximately 6 weeks in the case of individual income taxes and 6 months in the case of corporate income taxes.

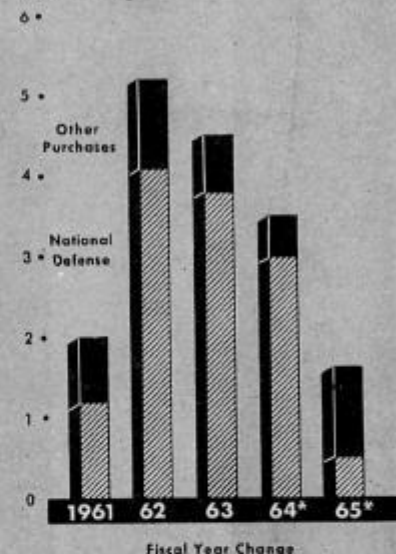
Expenditures are scheduled to increase substantially in fiscal 1964 on both the cash and national income account bases. However, in fiscal 1965, cash payments are expected to remain

#### ANNUAL INCREMENTS IN FEDERAL PURCHASES OF GOODS AND SERVICES

Increase in Purchases Estimated at \$1 ½ Billion in FY 1965

Outlays for National Defense Up Only Slightly - Other Purchases Scheduled to Rise More Than in FY 1964

Billion \$ Change



Note: - Before deduction of Gov't. sales

\*Estimates Based on the "Budget of the United States Government Fiscal Year Ending June 30, 1965"

U.S. Department of Commerce, Office of Business Economics 64-2-6

Table 2.—Federal Receipts and Expenditures in the National Income Accounts, 1963-65

(Billion dollars)

	Fiscal year			Quarterly, seasonally adjusted at annual rates			
	1963 actual	1964 estimate	1965 estimate	1963			
				I	II	III	IV
<b>Federal Government receipts</b>	<b>109.3</b>	<b>113.6</b>	<b>118.8</b>	<b>110.0</b>	<b>112.3</b>	<b>114.3</b>	<b>n.a.</b>
Personal tax and nontax receipts	50.1	50.1	52.3	50.0	50.4	51.1	52.2
Corporate profits tax accruals	21.6	23.3	24.9	21.5	22.6	23.2	n.a.
Indirect business tax and nontax accruals	15.6	16.5	17.3	15.7	16.0	16.4	16.5
Contributions for social insurance	21.9	23.7	24.2	22.8	23.3	23.6	23.9
<b>Federal Government expenditures</b>	<b>112.6</b>	<b>119.1</b>	<b>121.5</b>	<b>114.5</b>	<b>115.3</b>	<b>116.1</b>	<b>118.2</b>
Purchases of goods and services	64.4	67.8	69.1	65.5	66.5	66.4	66.6
National Defense	55.0	58.0	58.5	56.4	56.7	56.7	57.2
Other	10.3	10.8	11.9	10.1	10.6	10.8	10.4
Less Sales	.9	1.0	1.3	1.0	.8	1.2	1.0
Transfer payments	29.2	30.5	31.8	30.1	29.7	29.8	30.8
To persons	27.7	28.8	30.1	28.6	28.0	28.1	28.8
Foreign (net)	1.6	1.7	1.7	1.5	1.8	1.7	2.0
Grants-in-aid to State and local governments	7.9	9.4	9.7	8.2	8.5	9.2	9.4
Net interest paid	7.6	8.0	8.5	7.4	7.5	7.6	7.6
Subsidies less current surplus of government enterprises	3.5	3.5	2.5	3.4	3.0	3.2	3.8
<b>Surplus (+) or deficit (-)</b>	<b>-3.3</b>	<b>-5.5</b>	<b>-2.8</b>	<b>-4.6</b>	<b>-3.0</b>	<b>-1.8</b>	<b>n.a.</b>

Sources: "The Budget of the United States for Fiscal Year Ending June 30, 1965", and U.S. Department of Commerce, Office of Business Economics.

at the previous year's level while Federal expenditures in the national income accounts are projected to increase \$2½ billion.

There are two main reasons for this divergent movement. First, it is expected that in fiscal 1964 the Department of Defense will substantially shorten the present lags between the ordering and delivery of military hard goods, on the one hand, and the payments for those goods, on the other hand. This will move into fiscal 1964 some cash outlays that would otherwise have been made in fiscal 1965. Second, net outlays of Federal lending programs are expected to decline substantially in fiscal 1965. Such financial transactions, while decreasing cash payments, have no effect on expenditures in the national income accounts. For example, increased sales of mortgages by the Veterans Administration and Federal National Mortgage Association are projected as a result of a proposal to pool their assets so that private investors will be able to purchase certificates of participation in a portfolio of mortgages rather than having

to purchase individual mortgages. Higher sales of Export-Import Bank assets are also expected and the Budget further assumes legislation enabling the Rural Electrification Administration to use loan repayments for additional loan commitments. In other programs more reliance is to be placed on government guarantees rather than direct Federal loans. Table 3 contains a more detailed reconciliation between the various budgets.

#### Federal receipts up \$5 billion in FY 1965

The Budget for fiscal 1965 assumes enactment of the tax program in substantially the same form as passed the House. That is a two-stage package of individual and corporate rate reductions and some structural reforms, which, when fully effective—in calendar 1965—will reduce tax liabilities by over \$11 billion at calendar 1963 income levels.

The projections of Federal receipts assume acceptance of an important change, however, in the House-passed tax bill. The House bill calls for a reduction in the withholding rate on wages and salaries from the current rate of 18 percent to 15 percent, effective January 1, 1964; the Budget is predicated upon a reduction to 14 percent as of February 1, 1964. In both versions the reduction in liabilities would be made retroactive to January 1, 1964, with further rate reductions January 1, 1965. With a withholding rate of 14 percent effective February 1, collections will fall by more than the actual reduction in liabilities in calendar 1964. The Budget assumes taxpayers will not adjust their exemptions for withholding tax purposes or alter their quarterly declarations to make up for this deficiency in collections *vis-a-vis* liabilities. As a consequence, when taxpayers make final settlement on their 1964 taxes in calendar 1965, tax payments will be higher and tax refunds lower than would otherwise be the case.

For each month that the lowering of the withholding rate to 14 percent is delayed beyond February 1, 1964, there will be a shift of about \$½ billion in receipts from fiscal 1965 into fiscal 1964. The later the new withholding rate becomes effective, the more closely with-

holdings will approximate liabilities in calendar 1964; this will cause refunds to rise and final settlements to fall in calendar 1965.

#### Component changes in receipts

Given the Budget estimates of individual income tax receipts, which assume a \$29 billion increase in personal income in calendar 1964, personal taxes in the national income accounts are expected to equal their fiscal 1963 total of \$50.1 billion in fiscal 1964 and increase to \$52.3 billion in fiscal 1965. These estimates are subject to the qualification noted above with regard to the timing of the introduction of the new withholding rate.

Corporate profits are projected to rise to \$56 billion in calendar 1964 in the economic projections underlying the Budget estimates. This is an increase of over \$4 billion or somewhat less than the 1963 increase. However, 1964 will be the fourth year of the current upswing and in the previous upturns at least, profit increases have tended to slacken as expansions have matured. A rise of this magnitude in calendar 1964 profits, together with the further increase projected for 1965, would be enough to lift corporate tax accruals for fiscal 1964 \$1½ billion above the previous year level and an additional \$1½ billion in fiscal 1965, despite the rate reductions of 2 percentage points

Table 3.—Relation of Federal Government Receipts and Expenditures in the National Income Accounts to the Budget

(Fiscal years, billion dollars)

	1963 actual	1964 estimate	1965 estimate
<b>RECEIPTS:</b>			
Budget receipts.....	85.4	88.4	93.8
Less: Intragovernmental transactions.....	4.8	4.1	4.2
Receipts from exercise of monetary authority.....	(5)	.1	.3
Plus: Trust fund receipts.....	27.7	30.2	30.0
Equals: Federal receipts from the public (consolidated cash receipts).....	108.7	114.4	119.7
Adjustments for agency coverage:			
Less: District of Columbia revenues.....	.3	.4	.4
Adjustments for netting and consolidation:			
Plus: Contributions to Federal employees' retirement funds, etc.....	1.9	1.9	1.9
Less: Interest, dividends, and other earnings.....	1.1	1.2	1.3
Adjustments for timing:			
Plus: Excess of corporate tax accruals over collections; personal taxes, social insurance contributions, etc.....	.6	— .1	— .2
Adjustments for capital transactions: <sup>1</sup>			
Less: Realization upon loans and investments, sale of government property, etc.....	1.6	1.1	1.0
Equals: Receipts—national income accounts.....	104.3	113.4	118.8
<b>EXPENDITURES:</b>			
Budget expenditures.....	92.6	96.4	97.0
Less: Intragovernmental transactions.....	4.2	4.1	4.1
Accrued interest and other non-cash expenditures (net).....	1.1	.6	.6
Plus: Trust fund expenditures (including Government-sponsored enterprise expenditures net).....	20.5	23.3	20.4
Equals: Federal payments to the public (consolidated cash expenditures).....	113.8	123.7	122.7
Adjustments for agency coverage:			
Less: District of Columbia expenditures.....	.3	.4	.4
Adjustments for netting and consolidation:			
Plus: Contributions to Federal employees' retirement funds, etc.....	1.9	1.9	1.9
Less: Interest received and proceeds of Government sales.....	.6	.6	.9
Adjustments for timing:			
Plus: Excess of interest accruals over payments on savings bonds and Treasury bills.....	.9	.8	.6
Excess of deliveries over expenditures and miscellaneous items <sup>2</sup> .....	(*)	— .4	.4
Less: Commodity Credit Corporation foreign currency exchanges.....	.3	.3	.1
Adjustments for capital transactions: <sup>1</sup>			
Less: Loans—FHA secondary market mortgage purchases, redemption of IAHF notes, etc.....	.7	1.1	.2
Trust and deposit fund items.....	1.9	3.4	2.6
Purchase of land and existing assets.....	.1	.1	.1
Equals: Expenditures—national income accounts.....	112.6	119.1	124.5

\* Less than \$50 million.

1. Consist of transactions in financial assets and liabilities, land and secondhand assets. Acquisition of newly produced tangible assets are included in expenditures for goods and services as defined in the national income and product accounts.

2. Includes net change in Commodity Credit Corporation guaranteed non-recourse loans and interests in clearing account.

Sources: "The Budget of the United States for Fiscal Year Ending June 30, 1963," and U.S. Department of Commerce, Office of Business Economics.



scheduled for both January 1, 1964 and January 1, 1965.

Indirect business tax accruals are estimated to rise  $\$4$  billion in fiscal 1965. Higher levels of economic activity are expected to account for  $\$2$  billion of the increase if current excise rates on alcoholic beverages, tobacco, autos, telephone service, and air passenger service are extended. Proposed legislation to institute additional transportation-user charges would yield an additional  $\$4$  billion.

Contributions for social insurance are projected at  $\$24.2$  billion in fiscal 1965, up  $\$2$  billion. The much larger  $\$14$  billion rise estimated for fiscal 1964 reflect mainly the statutory rate increase of 1 percentage point in OSAI taxes effective January 1, 1963. The next rate increase is scheduled for January 1, 1966. The  $\$2$  billion increase in total contributions in fiscal 1965 is accounted for almost entirely by the increased OSAI receipts that may be expected from rising payrolls. At the same time, slightly lower receipts are projected for the unemployment trust fund.

#### *Outlays for national defense to level off*

National defense purchases of goods and services are projected at  $\$58\frac{1}{2}$  billion in fiscal 1965—an increase of  $\$2\frac{1}{2}$  billion over fiscal 1964. This is a marked departure from the upward trend of defense spending in recent years. From fiscal 1960 to 1963, national defense purchases of goods and services increased an average of  $\$3\frac{1}{2}$  billion a year, and a similar rise is estimated for fiscal year 1964.

According to present indications, the small increase budgeted for fiscal 1965 signals a leveling off and possibly the start of a decline in defense purchases rather than merely a pause followed by renewed increases. Savings under the current cost reduction program of the Department of Defense amounted to over  $\$1$  billion in fiscal 1963 and are expected ultimately to reach  $\$4$  billion per annum. Strategic retaliatory forces—ICBM's, Polaris submarines, and Strategic Air Command bombers—are approaching desired strength so that future expenditures will be mainly for replacement and upgrading. New obligational authority requested—an indi-

cator of future spending—is turning down. In fiscal 1965, the Defense Department's total obligational availability—the sum of new obligational authority requested and obligational authority carried over from prior years—is scheduled to fall below the level of fiscal 1964.

Table 4 shows Defense Department expenditures by budget category. The fiscal 1965 spending cutback is cen-

military pay rise which became effective October 1, 1963 added  $\$1$  billion to Defense Department outlays in fiscal 1964 and will increase fiscal 1965 outlays by an additional  $\$4$  billion. A further small rise in military compensation is proposed in fiscal 1965 under the principle of maintaining comparability with the wage structure in the private economy. Estimates of the strength of active forces show slight declines in both fiscal 1964 and 1965.

Spending for space research and technology is expected to reach  $\$5$  billion in fiscal 1965—double the level of fiscal 1963. However,  $\$2$  billion of the increase is scheduled for fiscal 1964 and fiscal 1965 outlays are up a further  $\$2$  billion, a small increase by recent standards. New obligational authority requested for fiscal 1965 is virtually unchanged from the level of the previous year.

Outlays for atomic energy development, which have held steady since fiscal 1961, show little change in fiscal 1965. Reductions in the procurement of uranium and production of nuclear materials are being offset by increased expenditures for research into the peaceful uses of atomic energy.

Federal nondefense purchases of goods and services are estimated at just under  $\$12$  billion in fiscal 1965, an increase of  $\$1$  billion over the level projected for fiscal 1964. Higher payrolls account for over one-half of the increase. Fiscal 1965 will reflect the full cost of the pay rise for Federal civilian employees which was effective January 1, 1964, and an additional comparability pay rise has also been requested. The number of employees in agencies other than the Defense Department is scheduled to increase moderately.

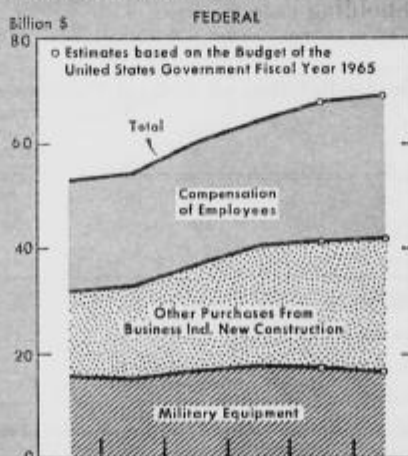
#### *Other programs little changed*

While Federal purchases of goods and services are an element of final demand, and thus affect Gross National Product directly, other categories of Federal expenditures—transfers, grants to State and local governments, net interest payments, subsidies, and the surplus or deficit of government enterprises—have an important, if indirect, influence on GNP. Grants-in-aid finance State and

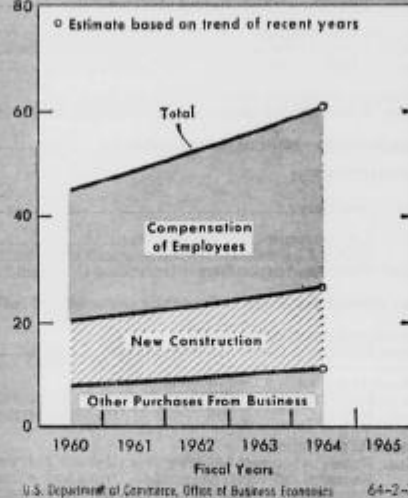
### GOVERNMENT PURCHASES OF GOODS AND SERVICES

Federal Purchases of Military Hard Goods Scheduled to Decline

State and Local Rise Continues



### STATE AND LOCAL



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tered in the procurement of hard goods. In the national income accounts, purchases of military equipment, which are on a delivery basis, are not expected to fall off as sharply. The rise in personnel costs is wholly accounted for by pay increases. The

local government purchases, and the remaining categories increase the incomes of either individuals or businesses and thus stimulate personal consumption expenditures or business investment.

**Table 4.—Defense Department Budgetary Expenditures, Military Functions, and Military Assistance, Fiscal Years 1963-65**  
(Billion dollars)

	1963 actual	1964 estimate	1965 estimate
<b>Total</b> .....	<b>50.0</b>	<b>52.3</b>	<b>51.2</b>
Military personnel.....	13.0	14.2	14.5
Operation and maintenance..	11.9	11.9	12.3
Procurement.....	16.6	16.3	14.8
Aircraft.....	6.3	6.6	5.7
Missiles.....	3.8	3.5	3.3
Ships.....	2.5	2.3	2.1
Ordnance vehicles, etc....	1.7	1.9	1.6
Electronics and commu- nications.....	1.4	1.4	1.2
Other.....	.9	.7	.8
Research, development, test, and evaluation.....	6.4	6.9	6.6
Construction, military.....	1.1	1.1	1.1
Family housing.....	.4	.7	.7
Civil defense.....	.2	.2	.2
Military assistance.....	1.7	1.4	1.2
Revolving and management funds.....	-1.4	-.4	-.2

Source: "The Budget of the United States for Fiscal Year Ending June 30, 1965" and U.S. Department of Defense.

The total of Federal expenditures other than purchases of goods and services are estimated to rise by \$1 billion in fiscal 1965. The average increase for the previous four years was \$3 billion. However, this does not mean that the current Budget will increase private purchasing power less than previous ones. The additional funds made available to the private economy through tax reduction will more than offset the slowdown in the rate of increase of these payments.

The subsidy program is the only one projected to decline in fiscal 1965; the other categories show increases similar to those of recent years. The \$1 billion decline in subsidies is concentrated in the Commodity Credit Corporation, particularly its price support and export activities. The Budget assumes enactment of legislation which would reduce expenditures for cotton and dairy programs. It also assumes that the domestic price of wheat will decline under current programs and be brought more in line with the world

price. This would reduce subsidies to exporters, which are based on the price differential, under the Food For Peace program.

Transfer payments to individuals are estimated to increase \$1¼ billion in both fiscal 1964 and 1965. This is in line with the experience of recent years of expansion.

The "attack on poverty" program, an important objective in the new Budget, will not have a significant effect on Federal transfer payments in fiscal 1965. However, since new obligational authority of over \$1 billion is being requested under existing and proposed legislation, a substantial increase in future years is implied. The specific programs which make up the attack on poverty, e.g., grants for special educational needs, community work-training programs, the Youth Employment Act, etc., fall primarily into the transfers to persons and grants to State and local governments categories of the national income accounts.

Federal grants to State and local governments are expected to increase \$¼ billion in fiscal 1965—over \$1 billion less than in fiscal 1964. Part of the \$1 billion decline in the rate of increase represents a slowdown in the rate of expansion of various programs, and part is caused by a change in the timing of certain payments. Federal aid for public roads is scheduled to increase \$½ billion less in fiscal 1965 than in 1964 while a small decline is projected for public assistance grants. Educational grants are up partly because of proposed legislation connected with the poverty program.

Under current practices the Federal Government turns over some funds to State and local governments or educational institutions weeks or even months before they in turn make payments under the particular programs. In fiscal 1965, funds will not be made available to States and communities by the Federal Government until they are actually needed. Shifting to a more current basis in fiscal 1965 will result in a one-time reduction of over \$¼ billion in Federal grants.

Net interest paid by the Federal

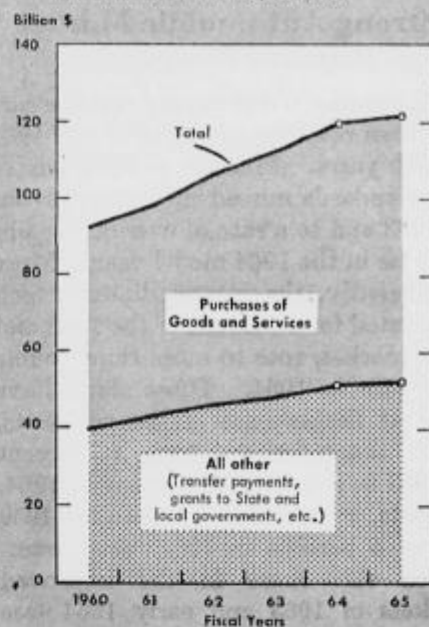
Government will increase \$½ billion in both fiscal 1964 and 1965. This rise is attributable partly to projected increases in public debt outstanding and partly to the higher average interest rates that the Government must pay as maturing debt certificates are refunded with issues carrying a higher rate.

### State and local outlays continue rise

While there are no comprehensive budgetary data available on which to base projections of State and local government activity, recent trends indicate that purchases of goods and serv-

### TOTAL FEDERAL EXPENDITURES — NATIONAL INCOME AND PRODUCT BASIS

Expected to Rise 2 ½ Billion in FY 1965  
Expenditures Other Than Purchases  
of Goods and Services Up \$1 Billion



o Estimates Based on the "Budget of the United States Government Fiscal Year Ending June 30, 1965"

U.S. Department of Commerce, Office of Business Economics

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ices will rise over the near-term at roughly the same pace as in recent years, when annual increases averaged slightly over \$4 billion. Highway outlays will remain a major element in the advance; smaller increases are anticipated in construction outlays for the Interstate Road System and larger advances in other street and road building and in maintenance. Although population trends signify declining rates of increase in the number of school-age children, educational expenditures will continue to rise as facilities are expanded

and modernized and teachers' salaries are improved. A projected acceleration in family formation will necessitate a further increase in the construction of sanitary and other general community facilities, and urban renewal programs are scheduled to receive increasing emphasis.

State and local receipts on a national income basis should increase at least as much as expenditures, given the projected growth in economic activity and incomes. Moreover, the Federal tax reduction proposals will result in additional revenues for those States and communities which tax incomes net of Federal taxes. Some States may also view the reduction in Federal income taxes as an opportunity to raise their own rates as a means of expanding revenues to finance their growing needs.

### Strong Automobile Market

(Continued from page 6)

The earlier trend toward smaller cars has been reversed in the 1963 and 1964 model years. Market penetration of the standards moved up to 59 percent in 1963 and to a rate of over 60 percent thus far in the 1964 model year. More significantly, the intermediates, which accounted for 5 percent of the 1962 and 1963 market, rose to more than double that rate in 1964. These shifts have been at the expense of the compacts, whose share declined from 31 percent in 1963 to less than 24 percent in 1964. Imports, which fell to their post-1959 low of 5 percent in 1962, have maintained this share in the improved markets of 1963 and early 1964 (see chart).

The sizable upward movement in the share of intermediates in the 1964 models reflects both the introduction of one new brand and the increase to intermediate size of three brands which were of compact size in 1963. Thus the trend toward a larger car just short

of the standard size appears to be continuing.

### Prices, upgrading, and extras

The Bureau of Labor Statistics' consumer price index for new cars, which measures the net price (after cash discount or overallowance on trade-in) of cars with relatively fixed specifications, has dropped about 2 percent from the 1959 model year to 1963. Average prices per unit actually paid by consumers, taking account of changes in the "mix" of makes and models and also the varying expenditures for optional equipment, declined almost 5 percent from 1959 to 1961. This was primarily a reflection of the increasing share of the market going to lower priced compacts. Average unit prices have subsequently returned to their 1959 level, mainly because of the gradual upgrading to higher priced lines within given makes and the in-

creased expenditure for optional equipment per car.

Hence, over the entire 1959-63 period consumers have tended on the average to buy smaller cars, but have approximately offset this factor by trading up within makes and by increased buying of "extras."

Some additional points of interest in connection with upgrading may be noted. In the 1963 model year every make of automobile increased its sale of cars with factory-installed air-conditioners compared with the previous year. For the highest priced makes more than 60 percent of the new cars in 1963 were air-conditioned. Even among some of the popular makes of standard cars, as much as 20 percent of sales have included air-conditioning. Similarly, where purchasers have had a choice between a V-8 and a 6-cylinder engine, there has clearly been an increase in favor of the V-8.

## ERRATA

The following table showing average annual rates of change in output, output per man-hour, and man-hours corrects a similar table that appeared on page 15 of the January 1964 SURVEY, with an accompanying chart and text. (Pages 15 and 16.) An error resulting from the 1963 estimate of man-hours has been corrected; several changes in

methodology are incorporated which to a minor extent affect some of the figures previously published. The new figures show that from 1960 to 1963 the increases in output per man-hour were somewhat greater than those previously published. The difference was most pronounced in nonmanufacturing industries.

Average Annual Rates of Change in Output, Output Per Man-Hour, and Man-Hours 1917-63  
(Percent)

	Private nonfarm industries			Manufacturing			Private nonfarm industries except manufacturing		
	Output	Output per man-hour	Man-hours	Output	Output per man-hour	Man-hours	Output	Output per man-hour	Man-hours
1917-33.....	3.7	2.6	1.1	3.3	2.7	0.6	3.9	2.5	1.3
1917-57.....	3.9	2.6	1.3	3.5	2.7	.8	4.0	2.4	1.6
1937-53.....	3.4	2.8	.6	2.9	2.6	.1	3.6	2.7	.8
1957-60.....	2.6	2.3	.3	1.2	2.6	-.8	3.3	2.5	-.9
1960-63.....	4.1	3.2	.9	4.8	3.7	.8	3.6	2.9	.9